

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 BRASILIA 002680

SIPDIS

NSC FOR MIKE DEMPSEY
STATE PLEASE PASS TO USTR FOR SCRONIN
DEPT OF TREASURY FOR FPARODI
USDOC FOR 4332/ITA/MAC/WH/OLAC/SHIELDS
USDOC ALSO FOR 3134/ITA/USCS/OIO/WH/RD/CREATORE
USDA FOR FAS/ITP AND FAS/FAA/WH
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
STATE PASS EXIM FOR NATALIE WEISS, COCONNER
STATE PASS USTDA FOR AMCKINNEY

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [EIND](#) [BR](#)

SUBJECT: AMBASSADOR AND PLANNING MINISTER MANTEGA
DISCUSS INVESTMENT IN BRAZIL

REF: A) BRASILIA 2605, B) BRASILIA 2447, C) RIO

DE JANEIRO 1291

1. (SBU) SUMMARY AND INTRODUCTION. IN THE AMBASSADOR'S OCTOBER 20 COURTESY CALL UPON GOB PLANNING MINISTER GUIDO MANTEGA, THE LATTER EMPHASIZED BRAZIL'S NEED FOR INCREASED PUBLIC AND PRIVATE INVESTMENT. MANTEGA FELT THAT BRAZIL WAS ON THE RIGHT TRACK AND THAT THE SUCCESS, TO DATE, OF THE GOB'S MACROECONOMIC PROGRAM WOULD HELP PULL IN GREATER LEVELS OF FOREIGN DIRECT INVESTMENT (FDI). MANTEGA PREDICTED THAT BY THE END OF THE YEAR THE BRAZILIAN CONGRESS WOULD PASS THE PUBLIC-PRIVATE PARTNERSHIP LEGISLATION (CURRENTLY AWAITING A SENATE VOTE). MANTEGA'S REMARKS COINCIDE WITH WHAT WE HAVE HEARD PUBLICLY AND PRIVATELY FROM OTHER GOB ECONOMIC POLICYMAKERS, WHO EMPHASIZE THE IMPORTANCE OF ECONOMIC GROWTH IN ATTRACTING FDI - AS OPPOSED TO NUTS AND BOLTS ITEMS SUCH AS BOLSTERING THE JUDICIAL SYSTEM, AND ESTABLISHING A STABLE, TRANSPARENT REGULATORY REGIME. MANTEGA MAY BE IN WASHINGTON IN DECEMBER 2004 OR JANUARY 2005 TO VISIT THE IDB, AND, IF SO, WOULD LIKE TO MEET WITH TREASURY SECRETARY SNOW OR U/S TAYLOR AT THAT TIME. END SUMMARY AND INTRODUCTION.

2. (U) ON OCTOBER 20, AMBASSADOR PAID A COURTESY CALL UPON MINISTER OF PLANNING GUIDO MANTEGA. PLANNING MINISTRY INTERNATIONAL AFFAIRS ADVISOR JOSE CARLOS MIRANDA ACCOMPANIED THE MINISTER; ECONCOUNS AND SPECASST SAT IN FOR THE U.S. SIDE.

3. (SBU) MANTEGA OPENED THE MEETING NOTING THAT, AFTER THE ECONOMIC AND FINANCIAL INSTABILITY OF 2002 TO 2003, BRAZIL WAS FINALLY ON THE RIGHT TRACK. GDP GROWTH WAS EXPANDING, EXPORTS WERE AT RECORD LEVELS, AND INFLATION WAS IN CHECK. AS A RESULT, THE FINANCIAL MARKETS IN PLACES LIKE NEW YORK, LONDON, AND FRANKFURT HELD PRESIDENT LULA IN HIGH REGARD - AS DID THE GENERAL PUBLIC. MANTEGA FELT THAT ALL THIS GOOD ECONOMIC NEWS WOULD HELP ASSUAGE THE GOB ECONOMIC TEAM'S PRINCIPAL WORRY: I.E., FINDING A WAY TO STIMULATE BOTH PUBLIC AND PRIVATE INVESTMENT. FOR IF THE GOB PROVED UNABLE TO RAISE THE CURRENT LOW RATE OF INVESTMENT, IT WOULD BE DIFFICULT FOR THE GOVERNMENT TO ACHIEVE, ON A SUSTAINED BASIS, THE 5 TO 6 PERCENT GDP GROWTH IT WAS SEEKING. SPECIFICALLY, THE MINISTER NOTED, THE DEFICIT IN PUBLIC TRANSPORTATION INFRASTRUCTURE, PARTICULARLY RAILROADS, HIGHWAYS, AND PORTS, WAS THREATENING TO BRAKE THE COUNTRY'S RAPIDLY EXPANDING EXPORTS OF COMMODITY GOODS. HAVING THE RAIL LINE INTO THE PORT OF SANTOS (BRAZIL'S PRINCIPAL MARITIME DISPATCH POINT) TERMINATE 6 KMS PRIOR TO THE ACTUAL PORT TERMINAL WAS SOMETHING THE GOB COULD NO LONGER AFFORD.

4. (SBU) THE MINISTER SAW THE DRAFT PUBLIC-PRIVATE PARTNERSHIP LAW (PPP) AS ESSENTIAL TO ATTRACTING THE NEEDED INFRASTRUCTURE INVESTMENT. THE GOB ASSISTANCE CONTEMPLATED UNDER THE PPP REGIME WILL STIMULATE DEVELOPMENT OF THOSE PROJECTS WHICH THE PRIVATE SECTOR OTHERWISE WOULD HAVE PURSUED, MANTEGA OBSERVED. HE PREDICTED THAT CONGRESS WOULD ENACT THE BILL PRIOR TO THE END OF THE YEAR. EMBASSY COMMENT: THIS TIMETABLE COULD WELL SLIP. END COMMENT. THE DELAY IN MOVING ON THE LEGISLATION TO DATE, MANTEGA SAID, WAS DUE TO THE FLOOD OF MEDIDAS PROVISORIAS WHICH WERE CURRENTLY ON CONGRESS' PLATE (BY LAW, THESE ITEMS MOVE TO THE TOP OF THE AGENDA) AND THE ABSENCE OF SOME CONGRESSMEN WHO WERE OUT CAMPAIGNING FOR THE UPCOMING MUNICIPAL ELECTIONS.

5. (SBU) THE AMBASSADOR QUERIED MANTEGA ABOUT A RECENT A.T. KEARNEY REPORT WHICH INDICATED THAT IN 2004 BRAZIL DECLINED FROM NINTH TO SEVENTEENTH PLACE IN

THAT FIRM'S FOREIGN DIRECT INVESTMENT (FDI) CONFIDENCE INDEX. THE MINISTER REPLIED THAT THIS REPORT WAS EXAGGERATED, AS THE COUNTRY HAD DONE MUCH TO GET ITS INTERNAL HOUSE IN ORDER. THE LULA ADMINISTRATION HAS REIGNITED ECONOMIC GROWTH, REFORMED THE TAX REGIME, IMPROVED PUBLIC FINANCES, AND WORKED TO REDUCE CORRUPTION. IN ADDITION, THE GOB HOPED TO OBTAIN PASSAGE OF A BILL REFORMING THE COUNTRY'S BANKRUPTCY CODE. THESE EFFORTS HAD PRODUCED RESULTS, MANTEGA DECLARED. THE DEVELOPMENT BY FORD OF A SUCCESSFUL BRAZILIAN DESIGNED AND MANUFACTURED SUV (THE ECOSPORT) SHOWED WHAT BRAZILIAN BUSINESS WAS CAPABLE OF. WHAT WAS ESSENTIAL, MANTEGA CONCLUDED, WAS THAT IN SEEKING TO STIMULATE INVESTMENT, THE GOB AVOID THE MISTAKES MADE BY THE PREVIOUS CARDOSO GOVERNMENT WHEN IT PRIVATIZED ELECTRICITY DISTRIBUTION.

16. (SBU) COMMENT. THOUGH MANTEGA DID NOT SPECIFY, PRESUMABLY HE, LIKE MANY OTHER PT LEADERS, BELIEVES THAT THE CARDOSO GOVERNMENT'S MISTAKE WAS ALLOWING PURCHASERS TOO MUCH LEEWAY IN RAISING ENERGY TARIFFS. HOWEVER, MANY PRIVATE SECTOR ANALYSTS WOULD ARGUE THAT THE GOB'S "MISTAKE" WAS NOT PROVIDING CLEAR REGULATORY RULES OF THE ROAD PRIOR TO SELLING THESE PARASTATALS. END COMMENT.

17. (U) IN CLOSING, MANTEGA NOTED THAT AS THE GOB'S REPRESENTATIVE TO THE IDB, HE PLANNED TO BE IN WASHINGTON FOR MEETINGS IN EITHER DECEMBER 2004 OR JANUARY 2005. DURING THAT TIME, HE HOPED TO MEET WITH TREASURY SECRETARY SNOW OR U/S TAYLOR.

DANILOVICH